

Message Text

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ACTION AGRE-00

INFO OCT-01 AF-08 ARA-06 EUR-12 IO-13 ISO-00 AID-05
CIAE-00 COME-00 EB-07 FRB-03 INR-07 NSAE-00 USIA-06
TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01
OMB-01 NSC-05 SS-15 STR-04 CEA-01 L-03 H-01 PA-01
PRS-01 /113 W
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P R 301350Z DEC 76
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC PRIORITY 9360
INFO AMEMBASSY LONDON
AMEMBASSY BOGOTA
AMEMBASSY SAN SALVADOR
AMEMBASSY SAN JOSE
AMEMBASSY ABIDJAN
USMISSION OECD PARIS
USMISSION EC BRUSSELS
AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO
USMISSION GENEVA

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E.O. 11652: N/A
TAGS: EAGR, EPAP, BR
SUBJECT: BRAZILIAN COFFEE EXPORT POLICY

REF: BRASILIA 10186 (TOFAS 317) (NOTAL)

1. SUMMARY. BRAZIL'S HIGHER COFFEE EXPORT TAX DID NOT SLOW
EXPORT REGISTRATIONS IN THE FIRST FEW DAYS FOLLOWING THE
INCREASE. THE GOB'S GOALS IN RAISING THE TAX WERE TO SLOW
THE RATE OF EXPORTS (TO ABOUT ONE MILLION BAGS PER MONTH)
AND TO INCREASE SUPPLIES FOR DOMESTIC CONSUMPTION. IN THE
FOURTH QUARTER, HOWEVER, EXPORTS WILL RUN AT ABOUT 1.9 MILLION
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BAGS PER MONTH. A FINANCE MINISTRY OFFICIAL TOLD US THE GOB
HAS BEEN CONCERNED ABOUT THE EXCESSIVELY STRONG DEMAND FOR
BRAZILIAN COFFEE IN DECEMBER AND THAT GOB HAS DECIDED TO
DELAY SOME SHIPMENTS UNTIL JANUARY, BECAUSE IT WANTS TO KEEP
COFFEE EXPORTS FROM EXCEEDING THE \$2.2 MILLION RANGE. END
SUMMARY.

BEGIN UNCLASSIFIED

2. THE BRAZILIAN COFFEE INSTITUTE (IBC) RESOLUTION NO. 1004, EFFECTIVE DEC. 21, 1976, RAISED THE COFFEE CONTRIBUTION QUOTA (EXPORT TAX) FROM \$50.00 PER BAG (OF 60 KILOGRAMS) TO \$80.00. THE PERFORMANCE BOND WAS RAISED FROM \$5.00 TO \$8.00, BUT UNDER THE NEW FORMULA IT WILL BE INCLUDED IN THE \$80.00 CONTRIBUTION QUOTA, NOT BE IN ADDITION TO IT. THUS THE EFFECTIVE INCREASE IN THE QUOTA IS FROM \$55.00 TO \$80.00.

3. THE FAS FORECAST FOR COFFEE EXPORT EARNINGS FOR 1977 RANGES UPWARDS OF \$3.0 BILLION. RECEIPTS FOR 1976 ARE EXPECTED TO REACH \$2.3 BILLION, BASED ON EXPORTS OF ABOUT 15.3 MILLION BAGS. IF THE CONTRIBUTION QUOTA WERE MAINTAINED AT \$80.00 THROUGHOUT CY 1977 AND IF EXPORTS WERE TO TOTAL 12 MILLION BAGS DURING THAT YEAR, AS IS GENERALLY FORECAST, GOB REVENUES FROM THE CONTRIBUTION QUOTA WOULD BE \$960 MILLION FOR 1977.

4. ACCORDING TO PRESS REPORTS, CAMILO CALAZANS, PRESIDENT OF THE IBC, HAS STATED THAT THE OBJECTIVES OF THE INCREASE IN THE CONTRIBUTION QUOTA WERE TO ALIGN THE PRICE OF BRAZILIAN COFFEE WITH WORLD MARKET LEVELS, AND TO CALM THE DOMESTIC MARKET. QUOTING COFFEE TRADERS, THE PRESS CLAIMS THAT A PRINCIPAL PURPOSE OF THE INCREASE IN THE QUOTA WAS TO FORCE A SUBSTANTIAL REDUCTION OF EXPORT SALES DURING THE NEXT FEW MONTHS IN ORDER TO LET OTHER EXPORTERS ENTER THE MARKET; THEN BRAZIL WOULD LATER RE-ENTER THE MARKET WITH LIMITED OFFICIAL USE

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EXPANDED SALES.

5. EXPORT REGISTRATIONS, HOWEVER, APPARENTLY CONTINUED AT A HIGH LEVEL ON THE FIRST DAY OF THE NEW QUOTA. THE "GAZETA MERCANTIL" REPORTED THAT 150,000 BAGS WERE REGISTERED FOR EXPORT ON DEC. 21. THE JORNAL DO BRASIL QUOTED CALAZANS AS SAYING THAT IF EXPORT REGISTRATIONS CONTINUED STRONG OVER THE NEXT FEW DAYS THE CONTRIBUTION QUOTA WOULD BE RAISED AGAIN. CALAZANS ALSO REPORTEDLY SAID THAT MORE RESTRICTIVE MEASURES, INCLUDING A COMPLETE FREEZING OF EXPORT REGISTRATIONS, WERE NOT BEING CONSIDERED AT THE PRESENT TIME, BUT CLAIMED THAT IF IT BECAME NECESSARY, THEY WOULD BE IMPLEMENTED. END UNCLASSIFIED.

6. CONGEN RIO OFFICERS DISCUSSED THE INCREASE IN THE CONTRIBUTION QUOTA WITH IBC EXPORT DIRECTOR BAUMGRATZ. ACCORDING TO THIS OFFICIAL, THE PURPOSE OF THE INCREASE, THE THIRD IN TWO MONTHS, WAS TO SLOW

BRAZILIAN COFFEE EXPORTS. A SECONDARY EFFECT OF THE HIGHER QUOTA WOULD BE THE DIVERSION OF ADDITIONAL COFFEE TO THE DOMESTIC MARKET. HE NOTED THAT DESPITE EARLIER QUOTA INCREASES, EXPORT REGISTRATIONS HAD CONTINUED AT A HIGHER LEVEL. FOR EXAMPLE, DURING JUST THREE DAYS OF THE WEEK OF DEC. 13, IBC REGISTERED 450,000 BAGS FOR EXPORT IN EARLY 1977. BAUMGRATZ ATTRIBUTED THIS DEMAND IN PART TO EUROPEAN ROASTERS WHO APPARENTLY HAD DEPLETED THEIR STOCKS AND HAD REENTERED THE MARKET.

7. BAUMGRATZ SAID IBC WAS ATTEMPTING THROUGH THE CONTRIBUTION QUOTA MECHANISM TO KEEP EXPORTS AT ABOUT 12 MILLION BAGS ANNUALLY. THIS LEVEL WOULD PERMIT ASSURED SUPPLIES FOR BRAZIL'S TRADITIONAL CUSTOMERS. UNTIL OCTOBER OF THIS YEAR, HE NOTED, EXPORTS WERE REASONABLY CLOSE TO THE DESIRED VOLUME. (IBC FIGURES SHOW THAT 1976 GREEN AND SOLUBLE COFFEE EXPORTS TOTALED 9.6 LIMITED OFFICIAL USE

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MILLION BAGS THROUGH SEPTEMBER). IN OCTOBER, HOWEVER, DEMAND INCREASED AND IT HAS CONTINUED STRONG. IN OCTOBER, 1.5 MILLION BAGS WERE SHIPPED; AND 1.7 MILLION IN NOVEMBER. BAUMGRATZ ESTIMATED THAT AN ADDITIONAL 2.5 MILLION WOULD BE SHIPPED IN DECEMBER. AS OF DECEMBER 20, HE SAID, 1.4 MILLION BAGS HAD ALREADY BEEN SHIPPED AND ALL THE PAPER WORK HAD BEEN COMPLETED ON AN ADDITIONAL 900,000 BAGS. THE ONLY LIMITATION ON THE DECEMBER SHIPMENTS WAS THE LOADING CAPACITY OF BRAZILIAN PORT FACILITIES. AS A RESULT OF THESE HEAVY SHIPMENTS, YEAR-END CARRYOVER WOULD BE 20 MILLION BAGS, INSTEAD OF THE HOPED FOR 22 MILLION. PROJECTING A 1977/78 CROP OF 15 MILLION BAGS AND 1977 DOMESTIC CONSUMPTION OF 6 MILLION BAGS, BAUMGRATZ ARRIVED AT A YEAR-END 1977 STOCK FIGURE OF 17 MILLION BAGS. REGARDING EXPORT RECEIPTS, BAUMGRATZ COMMENTED THAT THE \$2.2 BILLION EARNED FROM COFFEE IN 1976 ADDED TO \$1.8 BILLION FROM EXPORTS OF SOYBEANS AND SOYBEAN PRODUCTS WOULD PAY FOR BRAZIL'S 1976 OIL IMPORTS.

8. IN EARLY DECEMBER, AT A LUNCHEON MEETING WITH AMBASSADOR, SENIOR FINANCE MINISTRY OFFICIAL FORESHADOWED ACTIONS NOW TAKEN BY GOB. OFFICIAL SAID GOB HAD BECOME INCREASINGLY CONCERNED OVER STRENGTH OF WORLD DEMAND FOR BRAZILIAN COFFEE AND WOULD HAVE TO TAKE NEW MEASURES TO HOLD THE MONTHLY RATE OF EXPORT SALES TO A REASONABLE LEVEL. OFFICIAL ALSO SAID BRAZIL'S COFFEE EXPORT TARGET FOR 1976 WAS \$2.2 BILLION, AND THAT GOB WOULD TRY TO HOLD OVER SOME SALES TO JANUARY 1977. ACCORDING TO LATEST PRESS REPORTS, "O ESTADO DO SAO PAULO", DECEMBER 28,

BRAZILIAN COFFEE EXPORT SALES (BEAN AND SOLUBLE) IN
DECEMBER EXCEEDED US \$600 MILLION, FOR PURPOSES
OF EXPORT STATISTICS, HOWEVER, THEY WOULD BE SHOWN ONLY AS
US \$400 MILLION FOR THAT MONTH.
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